



**Legislative Department  
City of Seattle  
Memorandum**

Date: July 9, 2014

To: Finance and Culture Committee

From: Calvin Chow & Dan Eder, Council Central Staff

**Subject: Employee Hours Tax and Commercial Parking Tax**

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Following the failure of King County Proposition 1, the Seattle Transportation Benefit District (STBD) is considering a November ballot measure to raise approximately \$45 million for the purchase of King County Metro transit service for Seattle. The STBD proposal would raise \$24 million from a sixty-dollar vehicle license tax, and \$21 million from a one-tenth of one percent sales and use tax.

C.B. 118138 would have no direct effect on the STBD measure, but would provide a City of Seattle funding source for purchasing transit service. C.B. 118138 would enact an employee hours tax (at \$18 per employee per year) and raise the commercial parking tax by 5 percentage points from the current 12.5% rate to a new 17.5% rate. Together, these funding sources would generate approximately \$20 million annually. Depending on the actions taken by the STBD, the additional City funding contemplated by C.B. 118138 could either (a) replace nearly all revenues from the STBD's proposed 0.1% sales and use tax, or (b) augment the STBD funding sources to provide additional funding for enhancing transit service within Seattle.

The proposed legislation resembles historic local tax measures previously authorized as part of the Bridging the Gap funding package (Ordinance 122191, Ordinance 122192). At that time, an employee hours tax was established at \$25 per employee per year, and the commercial parking tax was established at 10% of the base rate charged to parking customers. In 2010, the employee hours tax was repealed (Ordinance 123150). In 2011, the commercial parking tax was raised by 2.5 percentage points to 12.5% to support the Alaskan Way Viaduct and Seawall program (Ordinance 123396).

The historic revenues from these previous measures are listed on the following page,

**Table 1** – Historic employee hours tax and commercial parking tax revenues.

	<b><i>BtG-Employee Tax (\$25/FTE)</i></b>	<b><i>BtG-Com Park Tax (10%)</i></b>	<b><i>AWV/Seawall-Com Park Tax (2.5%)</i></b>	<b><i>Notes</i></b>
2007	\$1,988,367	\$4,682,355	--	Enacted mid-2007 (6 months)
2008	\$4,652,407	\$12,617,620	--	
2009	\$5,646,090	\$18,734,495	--	
2010	\$794,677	\$24,172,892	--	Employee hours tax repealed
2011	\$253,726	\$23,516,949	\$5,162,257	
2012	\$66,125	\$25,442,997	\$5,872,869	
2013	\$8,989	\$27,495,622	\$6,560,375	

Source: City of Seattle Budget.

### **Proposed Employee Hours Tax**

Central Staff estimate that the proposed employee hours tax in C.B. 118138 would raise nearly \$7 million annually, based on an estimate of 385,376 workers for whom employers would be required to pay the tax. This estimate used 2012 Puget Sound Regional Council unemployment insurance data, adjusted for various factors. The estimate excluded government and education sectors (as state, local and federal governments are exempt), and made assumptions for insurance coverage, full-time vs part-time positions, and out-of-city employment subject to the tax.

**Table 2** – Estimate of employee hours tax revenues.

<b><i>Factor</i></b>				<b><i>Notes</i></b>
2012 PSRC Estimate of Covered Employment	483,318	employees		UI eligible employees
Minus Government & Education Sectors	401,433	employees		Exempt employees
Factor in non-covered employment	458,781	employees		0.875 covered/total
Convert employees to FTE	367,024	FTE		0.8 FTE/total
Add out-of-city employment	385,376	FTE		5% estimate
<b><i>Employee hours tax @\$18/FTE</i></b>	<b>\$ 6,936,768</b>			

Key features of the proposed employee hours tax include:

- Businesses may report on total employee hours or total full-time equivalent (FTE) employees as a basis for taxation.
- Tax rate is \$0.009375 per hour or \$18 per FTE.
- Sick leave, vacation, and other leave hours are excluded from the tax.
- Businesses with \$100,000 or less in gross revenue are exempt.

The employee hours tax proposed in C.B. 118138 contains fewer exceptions and exemptions than the employee hours tax enacted in Ordinance 122191. At the time the previous employee hours tax was repealed, actual revenues remained consistently lower than anticipated levels. One reason for this underperformance was an exemption for workers who commuted using non-single occupancy vehicle modes of transportation. The exemption was intended to promote alternative commuting behavior, but also had the effect of limiting the number of employees covered by the tax. The employee hours tax was reportedly difficult to administer since businesses had to track the commuting behavior of their employees.

### **Increased Commercial Parking Tax**

Central Staff estimate that C.B. 118138 would increase commercial parking tax revenues by just over \$13 million based on a straight line projection, using commercial parking tax revenues assumed in the 2014 Adopted Budget. The potential effects on parking demand are unknown, and so a variety of scenarios were evaluated.

**Table 3** –Commercial parking tax revenue scenarios (*in \$1,000s*).

	Baseline Parking Revenue	BtG-CPT (10%)	Var	AWV-CPT (2.5%)	Var	<b><i>Proposed CPT Increase (5%)</i></b>
<b><i>2014 Adopted Budget</i></b>	<b><i>\$262,456</i></b>	<b><i>\$26,246</i></b>	-	<b><i>\$6,561</i></b>	-	-
Inelastic Demand	\$262,456	\$26,246	-	\$6,561	-	<b><i>\$13,123</i></b>
2% Demand Reduction	\$257,207	\$25,721	(\$525)	\$6,430	(\$131)	<b><i>\$12,860</i></b>
3% Demand Reduction	\$254,582	\$25,458	(\$788)	\$6,365	(\$196)	<b><i>\$12,729</i></b>
5% Demand Reduction	\$249,333	\$24,933	(\$1,313)	\$6,233	(\$328)	<b><i>\$12,467</i></b>

Academic research related to on-street paid parking suggests parking demand is relatively inelastic at -0.2 to -0.4 (Ottosson, Lin, and Chen, 2012; Pierce and Shoup, 2013). That is, demand does not change in direct proportion to an increase in the price of parking. Assuming the higher end of the range for parking price elasticity (-0.4), a 5% increase in the commercial parking tax would reduce overall demand by 2%.

Any reduction in overall parking demand would reduce both (a) the anticipated commercial parking tax revenues from C.B. 118138 and (b) the amount of revenue from the existing commercial parking tax for Bridging the Gap and the Alaskan Way Viaduct/Seawall Replacement project. This effect may be observed in Table 1 when the commercial parking tax was raised in 2011. That year, revenues for Bridging the Gap fell by approximately \$656,000 or 2.7% from the previous year; however, revenues rebounded and increased in future years.

In addition to the commercial parking tax, commercial parking operators are also subject to the sales tax (9.5%), so C.B. 118138 would raise the effective tax rate for commercial parking operators from 22% to 27%.